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Contact: **Jeff Derouen**
Office of the Auditor of Public Accounts
Phone: (502) 573-0050
Fax: (502) 573-0067
Pager: (888) 222-5670
E-mail: jeff.derouen@auditor.ky.gov

Kenneth Mansfield
Office of the State Treasurer
Phone: (502) 564-4722 ext. 407
Fax: (502) 564-6545
E-mail: kenneth.mansfield@ky.gov

Treasurer Miller looks to move state's payment system into digital age; Auditor Luallen notes savings of more than \$580K by mandating direct deposit and electronic pay stubs

Frankfort KY, August 4, 2005—Kentucky State Treasurer Jonathan Miller today announced the establishment of a task force to move the Commonwealth further into the digital age. The task force's goal will be to ensure a smooth transition from printed checks to electronic funds transfers (EFT), whenever practical and within the state's best interest. Most significantly, the task force will be asked to develop solutions that provide the most taxpayer savings without placing unfair burdens on those who receive payments from the state.

The establishment of the task force comes as a response to a report released today by State Auditor Crit Luallen on the potential savings of the state mandating direct deposit and electronic pay stubs to replace printed checks. Miller asked Luallen for the analysis shortly after learning of a December 2004 episode, where paychecks for employees of the Cabinet for Health and Family Services (CHFS) in Campbell County were temporarily lost due to errors in the CHFS mailroom.

"The Personnel Cabinet and State Treasurer's Office should take the opportunity to work together to implement universal direct deposit and electronic pay stubs. The 2006 General Assembly will be facing another budget crisis and the state could use all the savings it can get." Auditor Luallen said.

While most state employees already take advantage of electronically transferred paychecks, 38% still receive printed checks, and even those using direct deposit receive a paper pay stub. The auditor's report shows a savings of more than \$400 thousand a year by requiring all employees to use direct deposit with electronic pay stubs. Benefits of this change are obvious: convenience; reduction of printing costs and related expenses; elimination of lost or stolen checks; creation of a paperless environment; and timely receipt of pay. It will be necessary, however, to note some of the drawbacks as well. For example, every state employee would need to have a bank account; there may be limited access to ATMs in remote areas of the state; and employees would need online access to pay stub information (NOTE: this is already available at Kentucky ClickHR).

In addition to state employees' paychecks, areas in which the Commonwealth might also save considerable money by switching to the electronic transfer of funds include tax refunds, child

support, Medicaid, and payment to vendors that receive more than twelve payments in a year. This could result in an overall savings to the state of more than \$580,000. However, it is necessary to review the potential impact this change would have on the various stakeholders and, for that reason, Treasurer Miller is creating a task force to study the issue. Accordingly, the task force will include not only state agency officials, but members who represent vital stakeholder interests, such as Charles Wells, Executive Director of the Kentucky Association of State Employees, and Debra Miller, Director of Public Policy for Kentucky Youth Advocates. An initial listing of task force members is attached.

“I believe the financial benefits of moving Kentucky to a paperless payment system will be truly outstanding,” Miller said, “but we must take care not to balance the state’s budget at the expense of those we intend serve.”

One item the task force is likely to review is the proposal by the Cabinet for Health and Family Services to change child support payments from printed checks to debit cards. The current request for proposal requires from the vendor only one free transaction per pay period. Many ATMs do not allow withdrawals of more than \$200, necessitating that some recipients complete more than one transaction and potentially requiring them to pay bank fees in order to access their money. Crucial to the success of this or any similar program will be the feedback of those most affected by its implementation. The task force will gather that feedback and channel it to the appropriate authorities.

Another issue that must be considered when contemplating the switch to electronic payments is that of identity theft. Necessary technical protections will have to be put in place, but equally important will be educating recipients, particularly those receiving debit cards, on safe practices. Both identity theft and debit card fraud have been on the rise in recent years.

The task force will better enable the Kentucky State Treasury to play its vital oversight role throughout the inevitable transition to the electronic transfer of funds. The Treasury currently handles EFT payments for nearly every branch of Kentucky’s government including direct deposit for more than half the state’s employees, payments to vendors, public assistance, and pensions for teachers and state retirees.

Of the task force, Auditor Luallen added, “We welcome the commission that Treasurer Miller is setting up to review switching to a paperless check-writing system. The expansion of direct deposit should be carefully evaluated to assure that the efficiency and cost savings are weighed against creating a hardship for employees and other recipients of state payments.”

Some states that have already moved toward mandatory direct deposit are Colorado, Louisiana, Florida, Ohio, Oklahoma, and South Dakota.

The auditor’s report is posted on the Internet at www.auditor.ky.gov.



TREASURER'S TASK FORCE ON E-GOVERNMENT

State Treasurer Jonathan Miller, Chair

Virginia G. Fox, *Secretary*
Education Cabinet

Dr. James Holsinger, Jr., *Secretary*
Cabinet for Health and Family Services

Erwin Roberts, *Secretary*
Personnel Cabinet

Robbie Rudolph, *Secretary*
Finance and Administration Cabinet

Bob Arnold, *Executive Director/CEO*
Kentucky Association of Counties

Daryl Dunagan, *Director of Division of*
Local Government Services
Finance and Administration Cabinet

Janet Givens, *Director of Division of*
Unemployment Insurance
Education Cabinet

Janet Graham, *Deputy Attorney General;*
Director of Prosecutors Advisory Council
Office of the Attorney General

William P. Hanes, *Executive Director*
Kentucky Retirement Systems

Gary L. Harbin, *Executive Secretary*
Kentucky Teachers' Retirement System

Wayne Harman, *Director of Department for*
Personnel Administration
Personnel Cabinet

Lynn W. Lane, *President*
Kentucky County Clerks Association

Debra Miller, *Director of Public Policy*
Kentucky Youth Advocates

Ed C. Ross, *Controller*
Finance and Administration Cabinet

Keith Sanders, *Executive Director*
The Hager Foundation

Sheriff Steve Sparrow, *President*
Kentucky Sheriffs Association

Mark Treesh, *Commissioner of Department of*
Revenue
Finance and Administration Cabinet

Jennifer Weeber, *Social Worker*
Hazard-Perry County Community Ministries

Charles B. Wells, *Executive Director*
Kentucky Association of State Employees

Melinda L. Wheeler, *Director*
Kentucky Administrative Office of the Courts